

Message Text

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PAGE 01 TEHRAN 00801 231125Z
ACTION TRSE-00

INFO OCT-01 NEA-10 ISO-00 SS-15 EB-08 L-03 COME-00
DOE-11 SOE-02 SP-02 /052 W
-----106966 231147Z /11
P R 231104Z JAN 78
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC PRIORITY 6554
INFO AMEMBASSY JIDDA
AMCONSUL DHAHRAN

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E.O. 11652: N/A
TAGS: EFIN IR
SUBJ: NEW IRS RULINGS ON TAX CREDITS

REF STATE 011565

1. TREASURY'S DEPUTY ASSISTANT SECRETARY GARY C. HUFBAUER, ACCOMPANIED BY ECONCOUNS AND FINOFF, MADE PRESENTATION JAN 19 AND PROVIDED COPIES OF NEW IRS RULINGS ON TAX CREDITS, SUBJECT OF REFTEL, TO MINISTRY OF ECONOMIC AFFAIRS AND FINANCE (MEAF) DEPUTY JALIL SHORAKA, ADVISER TO MINISTER DR. MANSOUR FARSAF, MEAF DIRECTOR GENERAL FOR CORPORATE TAX MEHATY AND MASOUD MODIR, ASSISTANT DIR. INTERNATIONAL, NATIONAL IRANIAN OIL COMPANY. WHILE COVERING ALL THREE RULINGS, DISCUSSION CONCENTRATED ON THE RULING RELATING TO "POSTED PRICES", OR, AS CALLED BY THE GOI, "TAX REFERENCE PRICE." GOI OFFICIALS QUICKLY GRASPED THE SIGNIFICANCE OF THE RULINGS ON U.S. FIRMS OPERATING WITHIN THE OIL "CONSORTIUM" AS WELL AS THE JOINT VENTURES WITH THE NIOC, SINCE THE GOI TAKE ON ALL OIL THEY SELL IS THE SUM OF "TAXES" AND ROYALTIES COMPUTED ON A FICTITIOUS PRICE. IN THE CASE OF THE CONSORTIUM THERE IS ESSENTIALLY AN INCOME TAX OF 55 PERCENT, PLUS AN ADD ON OF 30 PERCENT, ROYALTY OF 20 PERCENT AND A BALANCING ITEM WHICH RAISES THE GOI'S TOTAL TAKE TO THE U.S. \$0.22 PER

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PAGE 02 TEHRAN 00801 231125Z

BARREL LESS THAN THE SELLING PRICE, WHICH IS THEN THE COMPANIES' MARGIN. THE SECOND PARTIES IN THE OIL PRODUCING JOINT VENTURES PAY A ROYALTY OF 20 PERCENT AND A TAX OF 85 PERCENT. PRESUMABLY ALL THE GOVERNMENT TAKE EXCEPT THE ROYALTY PAYMENTS TO DATE HAS BEEN CREDITABLE AGAINST U.S. INCOME TAXES AND NOW ALL WILL BE EXPENSED.

2. WHILE RECOGNIZING THAT THE EFFECT ON THE GOI TAKE OF THESE RULINGS IS NIL, SHORAKA EXPRESSED CONCERN THAT RULINGS COULD HAVE ADVERSE IMPACT ON IRAN'S EFFORTS TO ATTRACT U.S. INVESTMENT. HIS CONCERN WAS STATED ALSO IN THE CONTEXT OF THE IMMINENT MEETING AT WASHINGTON OF THE IRAN/U.S. JOINT MINISTERIAL COMMISSION, ONE OF WHOSE OBJECTIVES HAS BEEN TO REDUCE IMPEDIMENTS TO TRADE AND INVESTMENT IN IRAN.

3. COMMENT OF LOCAL REPRESENTATIVES OF U.S. OIL COMPANIES CONCEDES THE ADVERSE FINANCIAL IMPACT OF THE IRS RULING, BUT NONE AS YET HAS RECEIVED ASSESSMENTS FROM HEAD OFFICE.

4. HUFBAUER SAID HE IS PREPARING A DETAILED REPORT ON HIS PERSUASION IN JIDDA AND TEHRAN. EMBASSY WOULD APPRECIATE A COPY. SULLIVAN

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Message Attributes

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Current Classification: UNCLASSIFIED
Concepts: REGULATIONS, CREDIT, TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 23 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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Disposition Event:
Disposition History: n/a
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ISecure: 1
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